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Kaifu Chooses Cabinet

In a determined effort to present the Japanese public with a "new beginning," Prime Minister Toshiki Kaifu August 9 selected a cabinet that includes two women and does not retain any member of the outgoing cabinet of his predecessor, Sosuke Uno. The prime minister stated that the most important task of his new administration, which was installed August 10, is to promote reforms to Japan's political system and establish higher ethics among elected officials. The ruling Liberal Democratic Party's unprecedented loss of its majority in the Diet's upper house as a result of the July 23 House of Councillors elections reflected public criticism of "unfairness in the political process and a loss of confidence [in the LDP]," Mr. Kaifu declared.

As with the selection of the prime minister himself, however, intense interfactional bargaining seemed to determine the new cabinet lineup, suggesting that traditional LDP "insider politics" prevailed. The ruling party tried to accomplish the somewhat conflicting goals of demonstrating that it had changed its ways while in fact not changing at all. Some analysts say the manner in which the cabinet was chosen is evidence of the prime minister's weak domestic political standing and does not bode well for his tenure in office.

Unlike nearly all of his predecessors, Mr. Kaifu is not a faction leader. The public, however, may have the last word on Mr. Kaifu's leadership as well as the LDP's overall governing capabilities when it goes to the polls again, probably before the year's end, to select representatives to the more powerful Diet lower house.

The new cabinet as a whole is younger than previous cabinets, suggesting a new vigor and vitality in the conservative party (see Table). But certain appointees appear to lack substantive expertise in his or her ministry's area,

Kaifu Cabinet

August 10, 1989

Position	Name	Age	Faction
Prime Minister	Toshiki Kaifu	58	Komoto
Deputy Prime Minister	Ryutaro Hashimoto	52	Takeshita
Finance	Ryutaro Hashimoto	52	Takeshita
Justice	Masao Goto	76	Miyazawa
Foreign Affairs	Taro Nakayama	64	Abe
Education	Kazuya Ishibashi	67	Abe
Health and Welfare	Saburo Toida	71	Takeshita
Agriculture, Forestries and Fisheries	Michihiko Kano	47	Abe
International Trade and Industry	Hikaru Matsunaga	60	Nakasone
Transportation	Nakami Eto	64	Nakasone
Posts and Telecommunications	Senpachi Oishi	53	Nakasone
Labor	Joji Fukushima	62	Takeshita
Construction	Shozo Harada	66	Miyazawa
Home Affairs	Kozo Watanabe	57	Takeshita
State Ministers:			
Chief Cabinet Secretary	Tokuo Yamashita	69	Komoto
Management and Coordination Agency	Kiyoshi Mizuno	64	Miyazawa
National Land Agency	Hajime Ishii	54	Takeshita
Japan Defense Agency	Juro Matsumoto	71	Abe
Economic Planning Agency	Sumiko Takahara	56	Unaligned
Science and Technology Agency	Eizaburo Saito	76	Nakasone
Environment Agency	Mayumi Moriyama	61	Komoto
Okinawa and Hokkaido Development Agencies	Fumio Abe	67	Miyazawa
Cabinet Legislative Bureau	Atsuo Kudo	57	Unaligned
Top LDP Officers			
Secretary General	Ichiro Ozawa	47	Takeshita
Chairman, Executive Council	Shunjiro Karasawa	59	Nakasone
Chairman, Policy Affairs Research Council	Hiroshi Mitsuzuka	62	Abe

which is not unusual in parliamentary systems. A case in point was the selection of Ryutaro Hashimoto to head the Ministry of Finance. Mr. Hashimoto, who at one point also was a contender for LDP party president, is admired for his political skills, which are credited with helping to propel then Finance Minister Noboru Takeshita in July 1987 to the head of the LDP's largest faction. The new prime minister is said to think these skills will be imperative in implementing possible changes in the consumption tax and tackling other difficult macroeconomic policy issues. However, some Japanese political insiders have suggested that certain party elders pushed Mr. Hashimoto's appointment to Finance because the demands of the position would keep him so busy that he would find little time to further expand his power base and public popularity.

Proven political skills, rather than policy background, also appeared to be important in the appointment of the new foreign minister, Taro Nakayama. Mr. Nakayama was a director general of the Management and Coordination Agency and is a doctor by training. His political credentials may have brought him to Mr. Kaifu's attention, however; he was LDP secretary general in the House of Councillors, the party's number-two position in this chamber.

But other appointees do have relevant policy experience. The new minister of International Trade and Industry, Hikaru Matsunaga, served as acting chairman of the LDP's Policy Research Affairs Council during Mr. Takeshita's administration. In former Prime Minister Yasuhiro Nakasone's second cabinet, he was education minister. When the Recruit Co., Ltd. influence-peddling scandal first broke, Mr. Matsunaga insisted that those politicians involved should come forward and assume responsibility, a reform-minded approach that the LDP hopes the public will find appealing. Juro Matsumoto, the new director general of the Japan Defense Agency, is a former senior Finance Ministry bureaucrat. More recently, he served as parliamentary vice minister of foreign affairs.

In an apparent effort to placate women voters offended by the consumption tax and former Prime Minister Uno's alleged extramarital affairs with geishas, Mayumi Moriyama was appointed director general of the Environment Agency and Sumiko Takahara was tapped to head the Economic Planning Agency. Ms. Takahara, formerly with Mainichi Shimbun and until recently a freelance commentator specializing in economic affairs, is the first female nonpolitician to be named to a cabinet in Japanese parliamentary history. She also has served on a number of government advisory bodies, such as the Tobacco Industries Council, the Tax Council and the Employment Council.

Some political analysts have predicted that Ms. Moriyama, who is fluent in English and represented Japan at the 1985 United Nations conference on women held in Nairobi, quickly will establish herself as an important cabinet member. On graduation from Tokyo University, Ms. Moriyama entered the Labor Ministry and became the youngest chief of the Women's Bureau at the age of 46, a post she held for six years. She has been elected to the upper house twice from Tochigi prefecture.

According to Japanese news reports, Mr. Takeshita, who resigned under the cloud of the Recruit affair, as well as former LDP secretary general Shintaro Abe, who also resigned due to his involvement with the information and employment services conglomerate, still appear to wield considerable political clout. They apparently exerted a strong influence in determining the factional balance of the 21-member cabinet. The leadership posts for the most part were

distributed among the factions led by Messrs. Takeshita, Nakasone and Abe, with only four positions given to members from the second-largest faction led by former Finance Minister Kiichi Miyazawa. Japanese political observers speculate that this rebuff was due to Mr. Miyazawa's strong support for Yoshio Hayashi for LDP president and prime minister. The 30-member faction of Toshio Komoto, of which Mr. Kaifu is a member, received two cabinet appointments. It should be noted that while the composition of Mr. Kaifu's cabinet for the most part reflects the factional influence of party elders, the prime minister tapped fewer senior members of the major factions and did not reappoint former cabinet officials in an effort to present the public with fresh new talent.

The Kaifu administration faces a difficult agenda. In an August 11 nationally televised press conference, the prime minister said he will strive for reforms in politics, taxes, administration and agriculture. Mr. Kaifu said he agrees with calls for a review and the possible revision of the controversial 3 percent consumption tax and added that he is inclined to favor using the revenue raised for social welfare purposes. Public outcry over the consumption tax was an important factor behind the LDP's stunning defeat in the July 23 upper house elections (see JEI Report No. 32A, August 18, 1989).

Barbara Wanner

Economic White Paper Identifies Structural Changes In Japan

Onward and upward. That phrase could serve as a quick summation of the direction that the Economic Planning Agency expects for Japan's economy. As described in EPA's annual Economic White Paper released in early August, Japan's economy is radically different from just a few years ago: more advanced, robust and invulnerable. Consumers, for example, have more diversified tastes and demand a broader range of better products and services. Firms are able to use new technology to control inventories more effectively than in the past and thereby avoid some kinds of behavior associated with business cycles. For this reason, EPA sees little chance of a "homemade" recession occurring in Japan; downturns are far more likely to be the consequence of imported shocks, such as sudden currency movements or oil price surges. Finally, even the symbols of Japan's economy have been refined: semiconductors have replaced steel as the symbolic "rice" of the Japanese economy.

But EPA admits that the makeover is not complete. Prices in Japan for a broad variety of goods and services, which had been roughly in line with those charged in other countries before the yen began appreciating in 1985, now are often much higher. By contrast, prices at home and abroad for goods produced by Japan's export-oriented industries have risen much less than overall prices. This suggests, among other things, the likelihood of greater productivity increases in export industries and glaring differences in productivity across industries in Japan. The direct measurements of productivity tell a similar story: the rate of productivity growth in agriculture and related industries in Japan has lagged that of other countries, such as the United States and West Germany, while that for many manufacturing industries has been higher in Japan than elsewhere.

Correcting price discrepancies is imperative for Japan's more complete makeover, EPA says. One obvious way would be to increase imports, which would

apply to the United States. According to EPA, the bilateral trade imbalance is a macroeconomic phenomenon that will be solved only when this country reduces its excessive demand.

In summary, EPA argues that the Japanese economy has entered a new, unexplored area, with the result that both the problems and the solutions are different from those in the past. On the whole EPA is remarkably upbeat about both the long- and the short-term prospects for the Japanese economy. Japan will easily outgrow some of the leading remaining problems. But, in specifying in some detail how the economy functions, EPA also is saying that the working of some miracles lies even beyond the reach of the Japanese economy or its policymakers.

Douglas Ostrom

MITI Reports On Foreign Subsidiaries

The Ministry of International Trade and Industry's 21st survey of foreign affiliates in Japan reveals that the local subsidiaries of foreign companies have higher profit ratios and import more than the average domestic firm. According to the survey, the growth potential of the Japanese market is the primary reason why foreign companies initiate operations in Japan. The survey also highlights, however, the relatively small role foreign firms play in the overall Japanese economy.

MITI surveyed 2,709 companies with a foreign stake of 50 percent or greater about their operations for the year ending March 31, 1987. The 1,052 returns MITI received paint an interesting picture.

- The respondents recorded total sales of Y10.2 trillion ($72.9 billion at Y140=$1.00) in FY 1986, an 11 percent gain over the previous year. These revenues represented just 1 percent of sales by all Japanese corporations. Foreign firms have a larger presence in the manufacturing sector, accounting for 1.9 percent of all sales in that sector. Despite this miniscule overall presence, foreign firms have established a solid position in Japan in at least two markets. Overseas subsidiaries made 29.1 percent of all sales in the oil and coal industries and rang up 5.3 percent of Japan's domestic chemical sales.

- In spite of their small presence, foreign subsidiaries had an average ratio of ordinary profits to sales of 5.3 percent, which easily outpaced the overall Japanese average of 2 percent (see Table 1). This also was true in the manufacturing sector where foreign firms showed a 5.7 percent to 2.8 percent edge. In fact, the only area where foreign firms lagged behind their domestic counterparts was in the nonelectric machinery sector. While foreign firms historically have been more profitable from an overall standpoint, it appears that the gap is widening.

- The foreign subsidiaries responding to the survey were net importers in FY 1986, buying Y2.8 trillion ($20.1 billion) from abroad while sending nearly Y1.2 trillion ($8.3 billion) overseas (see Table 2). If the oil industry is removed from consideration, Japanese companies controlled by foreigners purchased Y1.5 trillion ($11 billion) worth of foreign goods, 10.3 percent of

Japan's total nonoil imports. These same firms also were net importers, helping to diminish Japan's trade surplus by Y440.7 billion ($3.1 billion). When the trade behavior of American and European subsidiaries are compared, both are revealed to be net importers (see Tables 3 and 4). While American firms generate a greater absolute amount of trade, European firms generally run a greater trade deficit.

Table 1: Average Ratio of Ordinary Profits to Sales of Foreign Affiliates in Japan, FY 1982-FY1986

(in percent with domestic Japanese average in parenthesis)

	FY 1982	FY 1983	FY 1984	FY 1985	FY 1986
All Sectors	2.3%	3.5%	3.4%	4.2%	5.3%
	(1.8)	(1.8)	(2.1)	(2.1)	(2.0)
Manufacturing	2.7	4.3	3.7	5.4	5.7
	(2.8)	(2.9)	(3.6)	(3.2)	(2.8)
Manufacturing (excl. oil)	6.7	6.8	6.3	8.2	7.3
	(2.9)	(3.0)	(3.7)	(3.4)	(2.8)
Chemicals	5.4	5.4	4.4	5.4	5.9
	(3.8)	(4.7)	(5.2)	(5.0)	(5.3)
Nonelectric machinery	3.0	2.6	3.4	4.8	1.0
	(4.1)	(3.3)	(3.8)	(4.0)	(2.7)
Electric machinery	12.1	12.1	12.8	13.0	12.2
	(5.1)	(5.3)	(6.0)	(4.6)	(2.8)
Transport machinery	3.1	5.0	4.6	4.1	5.1
	(3.6)	(3.6)	(4.1)	(4.4)	(3.4)
Commerce	1.7	5.6	2.3	1.8	4.4
	(0.7)	(0.8)	(0.9)	(0.9)	(1.0)

Table 2: Trade of Foreign Affiliates in Japan, FY 1986

(in billions of yen)

	Exports	Imports	Balance
All Sectors	Y1,157.8	Y2,813.3	Y-1,655.5
Manufacturing	773.5	2,096.7	-1,323.2
Manufacturing (excl. oil)	717.3	825.7	-108.4
Food	0.1	26.0	-25.9
Chemicals	78.5	174.9	-96.4
Pharmaceuticals	20.9	160.6	-139.7
Petroleum	56.2	1,271.0	-1,214.8
Nonferrous metals	53.4	5.3	48.1
Nonelectric machinery	149.0	69.1	79.9
Electric machinery	376.9	276.8	100.1
Transport machinery	13.8	20.9	-7.1
Commerce	152.5	706.4	-553.9

Table 3: Trade of U.S. Affiliates in Japan with the United States, FY 1986

(in billions of yen)

	Exports	Imports	Balance
All Sectors	Y421.1	Y541.0	Y-119.9
Manufacturing	332.7	392.6	-59.9
Manufacturing (excl. oil)	283.5	384.2	-100.7
Food	0.0	3.1	-3.1
Chemicals	17.9	93.0	-75.1
Pharmaceuticals	4.8	32.8	-28.0
Petroleum	49.2	8.4	40.8
Nonferrous metals	0.6	2.3	-1.7
Nonelectric machinery	55.1	32.7	22.4
Electric machinery	185.1	195.8	-10.7
Transport machinery	9.7	13.6	-3.9
Commerce	79.1	147.0	-67.9

Table 4: Trade of European Affiliates in Japan with Europe, FY 1986

(in billions of yen)

	Exports	Imports	Balance
All Sectors	Y76.8	Y393.5	Y-316.7
Manufacturing	39.2	232.5	-193.3
Manufacturing (excl. oil)	39.2	220.9	-181.7
Food	0.0	1.7	-1.7
Chemicals	4.4	38.8	-34.4
Pharmaceuticals	6.6	81.5	-74.9
Petroleum	0.0	11.6	-11.6
Nonferrous metals	7.7	0.0	7.7
Nonelectric machinery	1.2	14.5	-13.3
Electric machinery	18.6	17.8	0.8
Transport machinery	0.1	4.5	-4.4
Commerce	29.3	155.4	-126.1

Source for Tables 1-4: Ministry of International Trade and Industry

• When asked why they established a Japanese presence, nearly 50 percent of all respondents answered that "the growth potential of Japanese markets" was the main reason. Using Japan as a base of operations to cover all of Asia was the next most cited reason, followed by access to advanced Japanese technology. Procuring parts or raw materials and benefiting from Japanese labor costs were minor considerations, according to the survey.

• Finally, MITI found that foreign firms were paying greater attention to Japan as a location for research and development. In FY 1984, the survey revealed, foreign affiliates employed 2,999 researchers at 98 facilities and spent Y61.2 billion ($437 million) or 0.5 percent of sales on R&D. Two years

later the number of researchers had grown to 5,192 working at 125 locations. The ratio of R&D outlays to sales also had risen to 0.8 percent, representing total expenditures of Y67.6 billion ($483 million).

MITI points to the survey as evidence that Japan can be highly profitable for foreign firms. Others might say that the study only underscores how difficult it is for foreign firms to penetrate Japanese markets even though formal barriers to foreign direct investment were dismantled years ago.

Jon Choy

Tokyo Supports U.N. Peacekeeping Fund

Japan established a new fund August 1 to support the United Nation's peacemaking and peacekeeping activities. Tokyo's initial capitalization will total $2.5 million with other major U.N. donors also expected to contribute. Financial difficulties that have left almost all of the U.N. peacekeeping operations running in the red provided the impetus for the new fund.

Augmenting Tokyo's assessed contributions to the United Nations, the $2.5 million will come out of Japan's supplemental budget, which in recent years has earmarked additional voluntary funding for U.N. agencies. Although figures for Japan's overall 1988 support are unavailable, Tokyo's backing amounted to $359 million in 1987. This financing -- both assessed and voluntary -- was second only to that of the United States, which had 1987 contributions of $590 million. Included with Japan's 1988 donations was roughly $20 million for U.N.-sponsored peacekeeping activities in Afghanistan, Iraq and Iran.

Japan's delegate to the United Nations, Teruo Kijima, was influential in establishing the peacekeeping fund, which he had proposed in April. Without assurances of new funding the increasing requests for help in troubled regions will be hard for the United Nations to meet. For example, U.N. forces were committed to Namibia April 1, but less than 25 percent of the more than $400 million needed for operations had been raised by that time. If Vietnamese troops withdraw as planned in September and if a peace settlement among Cambodian factions is reached, U.N. forces also are expected to play a role in peacekeeping in Cambodia. Japan has indicated that it will make a major financial contribution to support U.N. peacekeeping forces in the region when a settlement is achieved.

While Japan financially supports U.N. peacekeeping efforts, Tokyo interprets the Japanese constitution as prohibiting the government from sending the Self-Defense Forces abroad even as peacekeepers. A government survey released at the end of July also indicated that a plurality of Japanese citizens do not want the Self-Defense Forces to be involved with U.N. peacekeeping efforts. In the poll 47 percent of the respondents said they opposed sending Japanese troops overseas to assist in peacekeeping while only 22 percent indicated their approval. In contrast, over 70 percent of those polled felt it would be acceptable for the Self-Defense Forces to be involved with overseas disaster relief; only 20 percent disapproved.

Although Japan does not provide troops for peacekeeping operations, both Mr. Kijima and Yasushi Akashi, under secretary general of the United Nations

Trade and Payments Data

(in millions of dollars unless otherwise indicated)

	1987	1988	January-June 1988	January-June 1989	April 1989	May 1989	June 1989
Japan's Balance of Payments							
Trade Balance	$96,386	$95,012	$43,469	$40,930*	$8,123*	$5,058*	$6,438*
Exports (f.o.b.)	224,605	259,765	122,904	133,338*	22,796*	21,325*	22,272*
Imports (f.o.b.)	128,219	164,753	79,435	92,408*	14,673*	16,267*	15,834*
Current Account Balance	87,015	79,631	36,988	30,051*	6,483*	3,388*	4,116*
Long-Term Capital (net)	-136,532	-130,930	-51,698	-35,708*	-16,241*	-12,252*	-1,603*
Overall Balance	-29,545	-28,982	-11,009	-2,926	-23,232	-12,456	8,808
International Reserves (end of period)	81,479	97,662	87,700	89,462	100,361	95,694	89,462
Japan's Customs Clearance Trade							
Trade Balance	79,706	77,563	33,692	33,469*	7,318	3,761	5,291*
Exports (f.o.b.)	229,221	264,917	125,457	135,833*	23,225	21,707	22,654*
Cars	35,693	38,671	18,787	19,803*	3,738	2,940	3,037*
Steel	12,610	15,322	7,034	7,597*	1,282	1,238	1,265*
Imports (c.i.f.)	149,515	187,354	91,765	102,364*	15,908	17,946	17,363*
Crude Oil	20,663	18,852	10,522	10,276*	1,803	1,775	1,550*
Manufactured Products	65,961	91,838	44,144	51,020*	8,040	8,728	8,665*
Japan-U.S. Trade							
Trade Balance	52,090	47,597	20,921	22,108*	4,557	2,754	3,635*
Exports (f.o.b.)	83,580	89,634	41,469	45,724*	7,924	7,140	7,932*
Imports (c.i.f.)	31,491	42,037	20,549	23,616*	3,366	4,387	4,297*
Yen-Dollar Exchange Rate (average for period)	Y144.64	Y128.15	Y126.81	Y133.26	Y132.08	Y138.35	Y143.79
U.S. Trade							
Trade Balance	-152,119	-118,526	-56,595	-50,041*	-6,818	-9,625	-9,122*
Exports (f.a.s.)	254,122	322,426	158,543	182,186*	31,367	31,271	31,159*
Imports (Customs)	406,241	440,952	215,138	232,227*	38,185	40,896	40,281*
U.S.-Japan Trade							
Trade Balance	-56,326	-52,070	-24,121	-24,521*	-3,893	-4,281	-3,940*
Exports (f.a.s.)	28,249	37,732	18,228	21,605*	3,637	3,603	3,966*
Imports (Customs)	84,575	89,802	42,350	46,126*	7,530	7,884	7,907*

*Preliminary

STATISTICAL SUPPLEMENT

A

STATISTICAL SUPPLEMENT

Japanese Economic Indicators

(percent change from year-earlier period unless otherwise indicated)

	1987	1988	January-June 1988	January-June 1989	April 1989	May 1989	June 1989
Discount Rate (end of period)	2.5%	2.5%	2.5%	3.25%	2.5%	3.25%	3.25%
Outstanding Money Supply	10.4%	11.2%	11.7%	10.0%*	10.2%	9.4%	9.4%*
Industrial Production	3.4%	9.5%	10.6%	7.4%*	6.1%	7.4%	7.3%*
Manufacturing Operating Rate	0.1%	5.9%	6.4%	n.a.	3.1%	3.9%	n.a.
Number of Bankruptcies	-27.6%	-20.0%	-20.4%	-26.2%	-29.1%	-25.4%	-23.2%
Residential Construction Starts	22.7%	0.6%	8.8%	-2.4%	4.4%	-0.4%	-2.1%
Job Openings to Applications (ratio)	0.70	1.02	0.94	1.20	1.16	1.27	1.34
Nominal Wages	1.9%	3.8%	3.1%	4.6%*	4.0%	4.0%	6.8%*
Labor Productivity	5.8%	11.5%	12.5%**	10.1%**	n.a.	n.a.	n.a.
Wholesale Prices	-3.7%	-1.0%	-0.8%	1.7%	2.5%	3.4%	3.7%
Consumer Prices	0.1%	0.7%	0.5%	1.9%	2.4%	2.9%	3.0%
Yen-Based Export Prices	-5.1%	-2.2%	-3.8%	4.0%	3.5%	5.7%	7.5%
Yen-Based Import Prices	-8.3%	-4.6%	-3.4%	5.0%	6.8%	10.6%	10.7%

**January-March of each year only.

For Japan's most recent GNP figures, see JEI Report No. 25B, June 30, 1989.

B